

EXECUTIVE SUMMARY

As documented in the previous State of the Region Reports, the SCAG region lost significant ground during the 1990s due to major demographic and economic transformations. The severe recession in the early 1990s causing the loss of a quarter million high wage manufacturing jobs, the unprecedented domestic outmigration of more than 1.2 million residents leaving Southern California, and an almost equal influx of immigrants significantly impacted the performance of the region.¹

Since 2000, though the region did not achieve any meaningful growth in employment and per capita income until 2004, it has performed somewhat better than the rest of the nation. The 2001 national recession impacted other large metropolitan regions more severely than the SCAG region. It took both the region and the nation fully three years to finally achieve a noticeable recovery in 2004. Since the 2001 recession, the dynamics of the housing market have generated broader impacts on the region's performance in employment, income, homeownership and housing affordability. As discussed further in this Executive Summary, these broader impacts stemmed from interrelationships between continuing population growth, 40-year low mortgage interest rates, accumulated high housing deficits, and the economic recovery process, among other factors.

This State of the Region Report focuses on the performance of Southern California since 2000, particularly during the year 2004. Highlights of the findings are summarized below, and discussed in depth in the main report.

1. The region continued a faster pace of population growth than almost all other large metropolitan regions in the nation. It also continued the demographic transformation in the ethnic composition, longer settlement of the foreign-born population, and growing population share of immigrants' second generation descendants.

During 2004, the SCAG region continued to grow significantly with an increase of 284,000 residents, just over 10 percent of the nation's total population growth. Population of the region topped 18 million, and would rank fourth among all states following California, Texas and New York but ahead of Florida. The region continues to grow at faster rates than the rest of the state and the nation. Between 2000 and 2004, the average annual growth of 320,000 residents was among the highest in the region's history.

Population growth in the region in 2004 accounted for 53 percent of the total increase in the state. The Inland Empire (Riverside and San Bernardino counties), with only 21 percent of the region's total population, captured 42 percent of the total growth. Close to half (49 percent) of the growth in the region was due to natural increase, 40 percent from net foreign immigration, and 11 percent from net domestic migration.

As to the transformation in ethnic composition, between 1960 and 2004, the share of the Hispanic population increased from 10 percent to 43 percent while the share of the Asian population increased from 2 percent to just over 11 percent. During the same period, the share of the non-Hispanic White population declined dramatically from about



80 percent to 37 percent. The share of the African American population, though it increased between 1960 and 1980 from 6.4 percent to 9.2 percent, dropped below 7 percent in 2004.

Another important demographic dynamic is that the region's immigrant population, about a third of the region's total, has achieved

longer settlement. In 2000, the SCAG region experienced a decrease in the new immigrant population (defined as having arrived in the U.S. within the last 10 years) compared to 1990, reversing a steady increase since 1970. The population share of new immigrants increased from 4 percent in 1970 to 14 percent in 1990, and then decreased to 11 percent in 2000. In contrast, the share of the settled immigrant population (arrived more than 10 years ago) increased from below 6 percent in 1970 to 20 percent in 2000. The level of socioeconomic well-being (e.g. educational attainment, household income, poverty rate, homeownership rate, etc) of the immigrant population improves noticeably with length of settlement. Maturing settlement of the immigrant population could improve the region's long-term social and economic prospects particularly with supportive public policies.

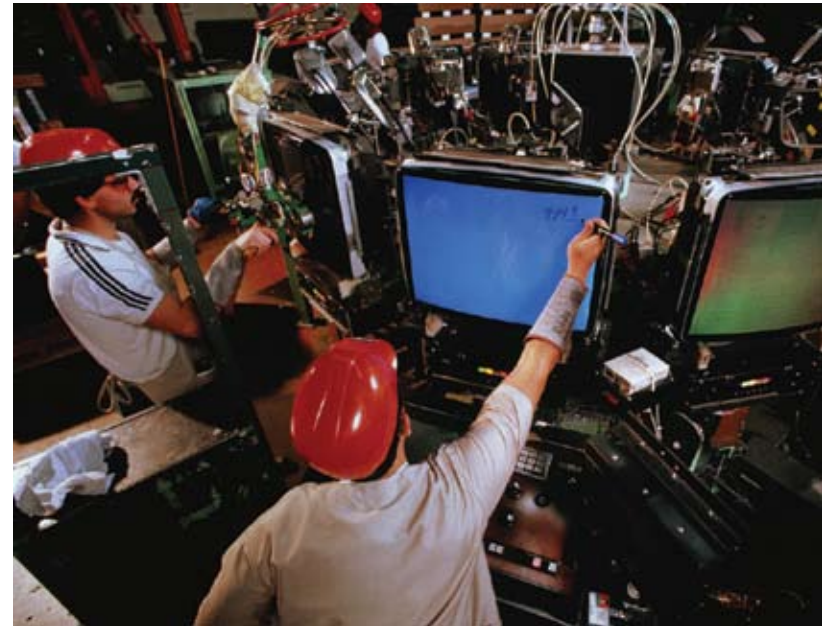
The growing share of settled immigrants also resulted in a growing share of the immigrants' second-generation, i.e. U.S-born residents with at least one foreign-born parent. In 2004, about 23 percent (or 4.3 million) of the population fell in this group. The immigrants' second-generation descendants are much younger than the rest of the population, with more than half being children under 18 years of age. Among the total child population in the region, more than 45 percent belongs to the immigrants' second generation. Accordingly, the educational and occupational attainment of the immigrants' second-generation, particularly children, will significantly impact the region's future performance.

2. The region showed solid signs of economic recovery in 2004, and achieved its first meaningful job growth (90,000 jobs or 1.3 percent growth) since 2000. More importantly, the region achieved its first gains in real per capita income (about 2 percent) and real median household income (2.6 percent) since 2000. The economic recovery was supported in important ways by the sharp rise in residential construction and investment as well as consumer spending fueled by the significant increase in home equity.

In 2004, there were clear signs of economic recovery in the region based on its performance in the job market and income growth. Total job increase of 90,000 was the largest since 2000 after two years of little growth. In addition, the region achieved a higher rate of job growth (1.3 percent) than that of the rest of the state (0.6 percent) and the nation (1.1 percent)

Recovery in the job market in 2004 was broad-based with nine of the twelve economic sectors contributing to the job increases. Rebound of the basic industries such as travel and tourism, professional services, and the stabilization of the information and manufacturing sectors contributed to the recovery. Population increase of 284,000 in 2004 also contributed to the continuing growth of the population-serving sectors such as retail, health care and housing construction.

The housing sector contributed significantly to the economic recovery in two important ways. First, the higher level of housing construction-related activities increased the employment in the construction, financial services and retail sectors (e.g. house furniture and other equipments). Second, increase in household wealth due to higher home equity has fueled consumer spending that also facilitated the economic recovery. Based on national data, home equity cash out



went from less than \$30 billion in 2000 to about \$140 billion in 2004. Since the 2001 recession, housing-related sectors contributed much more significantly to job growth and economic recovery in the SCAG region than in the rest of the nation.

Between 2003 and 2004, the unemployment rate in the region, though it declined from 6.2 to 6 percent, continued to be higher than the national average (5.5 percent). Real average payroll per job in the region increased by 1.2 percent to reach \$43,190 in 2004. From 2000 to 2003, average payroll per job in the SCAG region relative to the average of the 17 largest metropolitan regions increased from about 91 percent to 94 percent.

More importantly, for the first time since 2000, the region in 2004 achieved improvements in real per capita income (about 2 percent growth) as well as real median household income (2.6 percent). In

2003, per capita personal income in the SCAG region was only 85 percent of the average of the 17 largest metropolitan regions, a slight improvement from the previous year. However, 14.3 percent of residents lived in poverty in 2004, continuing to be higher than that in the state and nation. About 20 percent of children under 18 were below the poverty line. The poverty rates for all people and children under 18 in the region have remained unchanged since 2000. In 2004, the SCAG region continued to have the highest poverty rate among the nine largest metropolitan regions in the nation.

3. In 2004, the region achieved the largest number and highest valuation of residential building permits issued since 1989. Since 2000, the homeownership rates increased by almost 3 percent and reached over 57 percent in 2004 following the national trend of improvement. However, due to the much stronger demand and sharp increases in housing prices, housing affordability experienced a sharp decline throughout Southern California, reaching its lowest level since 1989.

In 2004, the region experienced the largest number of residential building permits issued (93,200 units) as well as the largest increase in permits (15,000 units or 19 percent) in a one-year period since 1989. Notably, the number of permits for multi-family units increased by 33 percent in one year. Within the region, the Inland Empire counties accounted for about 56 percent of the total permits issued. Total valuation of permits in 2004 reached over \$19.3 billion, with the largest annual increase (\$3.8 billion or 25 percent) since 1989. While the region's housing construction industry almost collapsed during the recession



in the early 1990s, it has been serving as an important stabilizing force to the regional economy since the 2001 recession.

Homeownership rates increased slightly to 57 percent in 2004 but continued to be significantly below the national average of 69 percent. Since 2000, the homeownership rate in the region increased by almost 3 percent while the number of homeowner households increased by about 250,000. Among the nine largest metropolitan regions in the na-

tion, only two had homeownership rates below 60 percent, the SCAG region and New York.

In 2004, the housing sector in the SCAG region experienced record home prices and the lowest level of housing affordability. Despite the continuing increase of permit activities in the past five years, housing construction continued to lag behind the ever-increasing housing demand. The stronger housing demand stemmed from 40-year low mortgage rates, the high level of population growth since 2000 and the accumulation of unmet demand (or housing deficits) since the last decade, and the wider availability and uses of non-traditional home mortgage financing. These non-traditional mortgages, including adjustable rate and interest only loans, allow buyers to borrow more money than they could with traditional mortgages but pose potential risks. Between 2001 and 2004, average home prices increased by almost 55 percent to reach historic peaks. In 2004, housing affordability experienced a sharp decline throughout Southern California and reached its lowest level since 1989. While close to 56 percent of the nation's households could afford a median-priced house in 2004, less than one-fifth of the region's households could achieve the same. Though the coastal counties had the lowest level of affordability, the sharpest decline in affordability occurred in the traditionally more affordable Inland Empire.

In 2004, over 45 percent of owner households and 54 percent of rental households had monthly costs at or greater than 30 percent of household incomes, both up by 5 percent since 2000. Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest percentage of owner and rental households with housing cost at or greater than 30 percent of household income.

4. Rapid population growth, high dependence on automobiles, and low levels of transit usage contributed to persistently high levels of congestion. For at least the last two decades, Southern California has been consistently ranked as the most congested region in the nation. Though the region's core area (south Los Angeles and north Orange counties) had the highest level of congestion delay, the Inland Empire has been experiencing a faster increase in the level of congestion delay. Between 2000 and 2004, carpooling share of work trips dropped by almost 3 percent with corresponding increases in drive-alone commuting.

As a major gateway for international trade reliant on effective transportation, Southern California has been experiencing very high levels of congestion. Contributing factors include large population and physical extent of the region, rapid population growth, high automobile dependence, low levels of transit usage, and a maturing regional highway system with limited options for expansion.

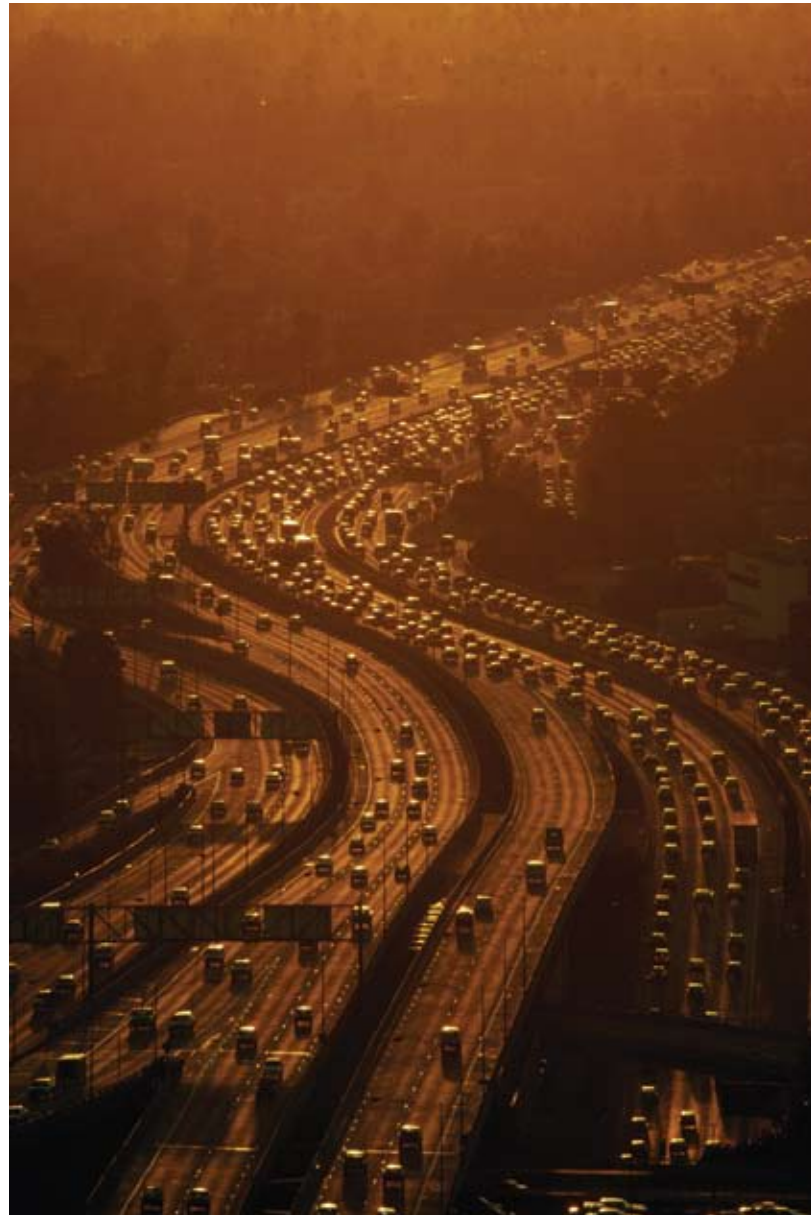
Between 1993 and 2003, the SCAG region (particularly Los Angeles and Orange counties) consistently ranked as the most congested metropolitan region in the nation. On the positive side, the congestion level in Los Angeles and Orange counties increased little between 1993 and 2003 while other metropolitan areas experienced much larger increases. Nonetheless, in 2003, a traveler in Los Angeles/Orange counties during the peak period experienced an annual average of 93 hours of delay, the highest among the major metropolitan areas in the nation, while a traveler in Riverside/San Bernardino counties experienced a total of 55 hours of delay, the 9th highest among major metropolitan areas. In addition, total cost incurred due to congestion in the

SCAG region was almost \$12 billion in 2003, significantly higher than any other metropolitan region.

In 2004, motor vehicle crashes in the region resulted in 1,822 fatalities, the highest since 1995. This was a very slight increase from 2003 while both the rest of California and nation saw reductions. In 2004, the region's highway accident fatality rate at 1.18 persons per 100 million vehicle miles traveled was significantly higher than the national average (0.94 persons per 100 million vehicle miles traveled) for urban areas.

Total transit boardings in the region in FY 2004 (from July 2003 to June 2004) declined by about 2 percent due to the labor strike of the MTA transit system. During FY 2005, the MTA system recovered more than its loss in FY 2004 and the regional total of transit boardings should also exceed its FY 2003 level.

Between 2003 and 2004, average travel time to work increased very slightly (0.7 minutes) to 28.8 minutes. This continued to be higher than the state and national averages (27 and 25 minutes, respectively). From 2000 to 2004, there was a decrease in the region's carpooling share of work trips from 14.3 percent to 11.4 percent, and increases in the share of drive-alone commuting, from 73 percent to 76.7 percent. This was similar to the trend at the national level though the magnitude of decline in carpooling share was much larger in the region.



5. In 2004, air quality in the region continued to exceed the federal standards but with noticeable improvements in Ozone, PM₁₀ and PM_{2.5}. The improvement was facilitated significantly by a much milder and favorable weather pattern.

In 2004, partly due to cooler weather and weak atmospheric inversions, ozone pollution improved in all four non-attainment air basins in the region. In the most populous South Coast Air Basin, the number of days exceeding the federal one-hour ozone standard decreased from 68 days to 28 days between 2003 and 2004, the lowest since 1976. In 2004, the South Coast Air Basin exceeded the federal 8-hour standard 90 days, a significant decrease from 120 days in 2003 and again the lowest since 1976.

Between 2003 and 2004, the annual average of PM₁₀ pollution in the Salton Sea Air Basin dropped significantly from 60 percent to about 30 percent over the federal standard. There was also a slight reduction in the PM₁₀ annual average between 2003 and 2004 in the South Coast Air Basin. In 2004, the number of days exceeding the federal 24-hour standard (150ug/m³) for PM₁₀ decreased in all three non-attainment basins. As to PM_{2.5}, the annual average concentration in the South Coast Air Basin also declined, from 24.9 ug/m³ in 2003 to 22.1 ug/m³, but continued to exceed the federal standard of 15 ug/m³.

In 2002, the South Coast Air Basin met federal attainment standards for carbon monoxide (with no violation in 2001 and one day exceeding the federal standard in 2002 that was allowable). The basin continued to have no violation for carbon monoxide in 2003 and 2004.

6. Since 2000, the region has made little progress in student performance including test scores and dropout rates. In addition, there continues to be significant disparities in educational performance among different racial and ethnic groups. As to the level of educational attainment among residents, the region has made noticeable improvements since 2000 following the national trend.

In 2004, 8th graders in the region continued to perform below the national median in reading and math test scores except in Orange and Ventura counties. In 2004, both Los Angeles (19 percent) and San Bernardino (17 percent) counties experienced much higher dropout rates than the state average (13 percent). African American and Hispanic high school students across the region, when compared with their White and Asian peers, had significantly higher dropout rates.

As to the percentage of high school graduates completing courses required for University of California (UC) or California State University (CSU) entrance, while Orange, San Bernardino and Ventura made noticeable progress in 2004, both Los Angeles and Riverside counties experienced lower performance than 2003. In 2004, every county in the region had less than 40 percent of high school graduates complete courses required for UC or CSU entrance.

Recent studies found that in California there are significant improvements in educational attainment from first-generation immigrants to their second generation adult children (aged 25 to 49). But despite the dramatic progress, second-generation Mexican adult children still lagged significantly behind White second-generation descendants in achieving at least a bachelor's degree.

Between 2000 and 2004, there were more noticeable improvements in educational attainment in the region following the national



trend. During this period, the percentage of adults with at least a high school degree increased from 74 to 77 percent while the percentage of adults with at least a bachelor's degree increased from 25 to 27 percent. Nevertheless, among the nine largest metropolitan regions, the SCAG region remained in last place in the percentage of adults (77 percent) with at least a high school diploma, and 2nd to last for at least a Bachelor's degree (27 percent).

7. Violent crime rates have continued to decline since 1992 and the incidences of hate crimes have also been decreasing since 2001. However, the juvenile felony arrest rate rose slightly in 2004 in contrast to the past trend of continuous decline.

In 2004, the violent crime rate in the region declined by almost 10 percent from 2003, larger than the 5 percent reduction at the state level. In 2004, the violent crime rate in the region was only about 43 percent of the peak 1992 level. The reduction was most significant in Imperial County (-14.4 percent) and Riverside County (-11.3 percent). Ventura and Orange counties consistently had the lowest rates in violent crimes in the region.

From 2003 to 2004, the juvenile felony arrest rate in the region increased by about 2 percent, in contrast to the trend of continuous decline between 1990 and 2003. At the state level, the juvenile felony arrest rate in 2004 remained almost the same as in the previous year. Within the region, the juvenile felony arrest rate increased significantly in Ventura County (18 percent) and Los Angeles County (9 percent). The other four counties, however, achieved significant reductions ranging from 7 percent in San Bernardino County to 11 percent in Imperial County. The number of hate crime events and victims in the region declined by about 8 percent between 2003 and 2004, following about a 12 percent reduction during the previous period.

The Path Forward

The 21st Century is a century of regions that engage in global competitions for new markets, financial and human capital and more importantly, high quality of life for all residents. As one of the most dynamic gateway regions in the nation and the world, Southern California has been facing enormous interrelated challenges to regain its economic competitiveness, address environmental sustainability, improve livability and ensure social equity. This is particularly challenging in light of the estimated growth of another 5 million residents over the next 25 years.

Since 2000, though the SCAG region had not achieved meaningful growth in employment and income until 2004, it generally has not lost additional ground relative to the other largest metropolitan regions in the nation. However, the level of socioeconomic well-being (e.g. educational attainment, per capita income, homeownership and housing affordability) of Southern Californians in 2004 continued to be significantly below the average of the largest metropolitan regions in the nation. In addition, the region continued to face persistent challenges in mobility and air quality. All these challenges are interrelated and transcend the boundary of any jurisdictions.

These interrelated challenges require a system approach that involves all stakeholders working collaboratively to generate innovative and integrated regional solutions. An important requirement of the regional solutions is that they must generate broad benefits at the regional system level in addition to addressing more focused issue areas. For example, the Compass 2% Strategy, evolved from a collaborative planning process, aimed at reshaping the region's development pattern in strategic transportation corridors and urban centers to, among others, improve accessibility and mobility, increase supply of affordable housing, and improve environmental quality.² In addition, the Regional Strategy for Goods Movement, currently under development through extensive stakeholder participation, is intended to generate broad regional benefits of enhancing freight mobility and economic competitiveness, fostering upward social mobility as well as improving air quality.³ The implementation of integrated solutions will also require innovation in governance and leadership at all levels from all sectors whether public, private or non-profit. Only by working together could we develop a shared vision and translate it into a reality.